



State of Michigan
Comprehensive Annual Financial Report

Fiscal Year Ended September 30, 2007

JENNIFER M. GRANHOLM
Governor

ROBERT L. EMERSON
State Budget Director
Office of the State Budget

MICHAEL J. MOODY, CPA
Director
Office of Financial Management

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JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
OFFICE OF THE STATE BUDGET
LANSING

ROBERT L. EMERSON
DIRECTOR

December 28, 2007

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
People of the State of Michigan

As required by Article 9, Section 21, of the State Constitution and Section 494, Public Act 431 of 1984, as amended, we are pleased to submit the *State of Michigan Comprehensive Annual Financial Report* (SOMCAFR) for the fiscal year ended September 30, 2007.

INTRODUCTION TO THE REPORT

Responsibility: The Office of the State Budget, Office of Financial Management, prepares the SOMCAFR and is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures. To the best of our knowledge and belief, the information contained in the SOMCAFR is accurate in all material respects and reported in a manner that fairly presents the financial position and results of operations of the State primary government and component units for which it is financially accountable. All disclosures necessary to enable the reader to gain a reasonable understanding of the State's financial affairs have been included.

Adherence to Generally Accepted Accounting Principles: As required by State statute, we have prepared the financial statements contained in the SOMCAFR in accordance with generally accepted accounting principles (GAAP) applicable to state and local governments, as promulgated by the Governmental Accounting Standards Board (GASB). The State also voluntarily follows the recommendations of the Government Finance Officers Association of the United States and Canada (GFOA) for the contents of government financial reports, and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting.

Report: The SOMCAFR is divided into four major sections: introductory, financial, statistical, and other information:

- The introductory section includes this letter, the State's organization chart, and the list of principal officials.
- The financial section includes: the independent auditor's report on the Basic Financial Statements; Management's Discussion and Analysis (MD&A) which provides an introduction, overview, and analysis to the Basic Financial Statements; the Basic Financial Statements, which present the government-wide financial statements and fund financial statements for governmental funds, proprietary funds, fiduciary funds, and component units, together with footnotes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and the supplemental financial data which includes the combining financial statements and schedules.
- The statistical section includes such items as trend information, information on debt levels, and other selected economic and statistical data.
- The other information section includes General Fund and Special Revenue Funds revenue and expenditure schedules and General Fund source and disposition of spending authorization schedules.

Internal Control Structure: The Office of the State Budget is responsible for the overall operation of the State's central accounting system and for establishing and maintaining the State's internal control structure. The system of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements are free from material misstatement.

All financial transactions of the State primary government are recorded in the central accounting system, except for the Michigan Unemployment Compensation Funds, Attorney Discipline System, the State Employees' Deferred Compensation Funds, the State Employees' Defined Contribution Retirement Fund, and the Michigan Education Savings Program. Many of the essential control features are decentralized, such as the preparation and entry of expenditure transactions into the central accounting system. Consequently, the Office of the State Budget relies upon the controls in place at the various State departments and agencies.

The Management and Budget Act requires each principal department to maintain adequate internal control systems. Each department is also required to periodically report to the Governor on the adequacy of its internal accounting and administrative control systems and, if any material weaknesses exist, to provide corrective action plans and time schedules for addressing such weaknesses. This reporting is required on or before May 1 of each odd numbered year, effective as of the preceding October 1.

The discretely presented component units generally operate outside the State's central accounting system and are responsible for establishing and maintaining their own separate internal control structures.

Internal Auditors: Pursuant to Executive Order 2007-31, the Office of the State Budget provides internal audit services to executive branch departments and agencies. Office of the State Budget internal audit staff perform periodic financial, performance, and compliance audits of department and agency programs and organizational units. In addition to periodic audits, Office of the State Budget internal audit staff also review department and agency management's processes for establishing, monitoring, and reporting on internal controls; advise department and agency management on internal control matters; and assist department and agency management with investigations of alleged fraud or other irregularities.

Independent Auditors: The Office of the Auditor General (OAG) is the principal auditor of the SOMCAFR. The OAG also relies on the opinions of outside public accounting firms, particularly for component unit financial statements (such as the Michigan State Housing Development Authority and 10 of the State's universities), the larger pension and other employee benefit trust funds, and the Unemployment Compensation funds. The purpose of the OAG's audit is to provide reasonable assurance that the Basic Financial Statements for the fiscal year ended September 30, 2007 are free of material misstatements. The OAG concluded that the Basic Financial Statements for the fiscal year ended September 30, 2007 are fairly presented in accordance with GAAP and issued unqualified opinions.

In addition to the annual audit of the SOMCAFR, the OAG also performs periodic financial statement and performance audits of the various State departments, agencies, and institutions of higher education. The Auditor General also has primary responsibility for conducting audits under the federal Single Audit Act Amendments of 1996. Pursuant to Michigan Public Act 251 of 1986, these audits are conducted biennially for applicable State departments, agencies and component unit authorities, and result in separately issued audit reports.

Management's Discussion and Analysis (MD&A): GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the Basic Financial Statements in the form of MD&A. This letter of transmittal is intended to complement MD&A and should be read in conjunction with it. The MD&A can be found immediately following the Independent Auditor's Report.

PROFILE OF THE GOVERNMENT

Michigan was admitted to the Union as the 26th state in 1837. The State is governed under the Constitution of 1963, as amended.

Executive Branch: The Executive Branch consists of 18 principal departments. Fifteen principal departments are headed by commissions and/or directors appointed by the elected governor. Elected officials head two principal departments, Attorney General and State, and one, Education, is headed by an elected board.

Judicial Branch: The Judicial Branch consists of the Supreme Court, Court of Appeals, Court of Claims, and the State's circuit, district, probate, and municipal courts. In addition to its judicial duties, the Supreme Court is responsible for the general administrative supervision of all courts in the State. The Supreme Court also establishes rules for practice and procedure in all courts.

Legislative Branch: The Legislative Branch consists of the Senate, House of Representatives, and Office of the Auditor General. The Senate, which consists of 38 elected members, and House of Representatives, which consists of 110 elected members, enact the laws of Michigan. The Office of the Auditor General conducts post financial and performance audits of state government operations.

Reporting Entity: The financial reporting entity of the State includes all of the funds of the primary government as well as component units for which the State's elected officials are financially accountable. The transmittal letter, MD&A, and the financial statements focus on the primary government and its activities. Although information pertaining to the component units is provided, their separately issued financial statements should be read to obtain a complete overview of their financial position.

Budgetary Reporting and Control: For the State primary government operating funds (i.e., the General Fund and annually appropriated special revenue and permanent funds), the State budget projects revenues and expenditures and calculates fund balances for budgetary purposes in accordance with GAAP. Public Act 431 of 1984, as amended, prohibits the State from budgeting for an ending fund balance deficit in an operating fund. If an actual deficit is incurred, the Constitution and Act 431 require that it be addressed in the subsequent year's budget. If accounting principles change, Act 431 requires the State to also implement such changes in its budgetary process.

Compliance with the final updated budget for the annually budgeted operating funds of the State primary government is demonstrated in the budget and actual comparative schedules and notes in the SOMCAFR. In addition, subsequent to the

publication of the SOMCAFR, the State releases a Statewide Authorization Dispositions report that provides line item appropriation details, the legal level of budgetary control, for the General Fund and budgeted operating funds.

MAJOR INITIATIVES AND FUTURE PROJECTS

Working The Comprehensive Economic Plan: For Michigan to grow and compete, state government must invest in initiatives that will diversify the economy, promote job creation, and provide workers with the education and training they need. The Single Business Tax was replaced this year by the Michigan Business Tax which is more competitive, provides significant personal property tax relief, and creates incentives for companies to locate and create jobs here. The 21st Century Jobs Fund continues to foster high-tech, cutting edge businesses and made more than \$50 million in critical start-up funding available through the Capital Access Plan.

The No Worker Left Behind program and the MI Opportunity Partnership are helping workers connect with training and jobs. In just four months, No Worker Left Behind has enrolled 7,800 displaced workers in free training, while more than 48,500 citizens were placed in jobs in the second year of the MI Opportunity Partnership.

Local Jobs Today, a program that makes grants and loans available to cities, townships, and local transit agencies, enabling them to take advantage of available federal transportation funding, provided \$282 million this year for 267 local road and bridge projects creating more than 5,000 jobs.

Reforming Government: During fiscal year 2007, Governor Granholm and the legislature enacted a series of reforms, including closing a loophole that allowed some retired state employees to continue drawing a state pension after returning to active state employment, requiring school districts to shop for competitive health care coverage, and encouraging healthy behaviors for Medicaid recipients.

The State took additional steps to reduce costs and improve efficiency, including closing two prisons and two prison camps and eliminating the Department of Civil Service. Through Executive Order, the Governor consolidated the State's human resources, accounting, and internal audit functions. In addition, 37 additional boards and commissions were eliminated this year.

Agencies and departments throughout state government are also putting new technology to use to reduce costs and improve efficiency. The Department of Transportation developed a new computer system to manage and track construction projects, saving more than \$28 million this year. The Department of Agriculture is using a new web-based system to manage lab analysis data. The new program is expected to save approximately 3,000 staff hours for lab analyses while speeding turnaround times. The Department of Information Technology is working to consolidate hardware and application systems. In 2007, this effort allowed the state to close 21 separate facilities, saving the state more than \$9.5 million.

Education: The State is committed to providing every child with a quality education. As the foundation of our economic plan, over \$15.3 billion or 35.2% of the State's total fiscal year 2008 budget is devoted to educating Michigan's citizens through its public schools, community colleges, and universities.

The School Aid Budget, totaling \$13.0 billion, reflects the commitment to provide all students in the K-12 education system with the tools they need to succeed in a global economy. For fiscal year 2008, the minimum foundation allowance was increased to \$7,204 per pupil.

In 2007, five new revolutionary high schools also opened. Working in partnership with local hospitals and health care providers, these "early college high schools" will keep at-risk kids in school and prepare them for a career in health care. In just five years, students can graduate with a high school diploma and an associates degree or equivalent certification.

To make Michigan competitive, the fiscal year 2008 budget continues to invest in one of the state's largest economic catalysts – our universities. State colleges and universities will receive \$2.2 billion. In addition, more than 33,000 students enrolled in Michigan colleges and universities this year with the help of the \$4,000 Michigan Promise Scholarship. Another 86,000 students are eligible to receive the scholarship after completing two years.

Health and Human Services: For fiscal year 2008, the two departments primarily responsible for providing services to Michigan's most vulnerable citizens, the Department of Community Health and Department of Human Services, account for \$16.6 billion, or 38.2%, of the State budget.

The Michigan Medicaid program is a foundation of the social safety net for low-income families and vulnerable adults. By providing coverage to 1.6 million people, of which nearly 900,000 are children, the program ensures that low-income families, the elderly, and the disabled receive high-quality, cost-effective health care, while reducing the burden of uncompensated care costs on providers. The fiscal year 2008 budget includes \$7.5 billion for the medical and long-term care portions of the Medicaid program, which will provide health care services to one out of every seven state residents.

The fiscal year 2008 budget for the Department of Human Services provides funding for more than 300 additional workers to provide services to vulnerable families and help keep our children safe. Funding was also increased for foster parent recruitment and training to ensure that the state has enough safe, stable homes for children.

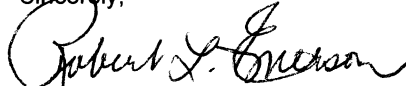
AWARDS AND ACKNOWLEDGEMENTS

Certificate of Achievement: The GFOA awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Michigan for its SOMCAFR for the year ended September 30, 2006. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report whose content satisfies both generally accepted accounting principles and applicable legal requirements.

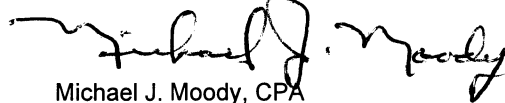
A Certificate of Achievement is valid for a period of one year only. The State has received a Certificate of Achievement for 20 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report requires the collective efforts of the management and staff of the Accounting and Financial Reporting Division, Office of Financial Management; the chief financial officers, chief accountants, internal auditors and their staffs from all State agencies; and the management and staff of the Office of the Auditor General. We sincerely appreciate the dedicated efforts of all of these individuals that have allowed Michigan to maintain its position as a national leader in quality and efficiency for financial reporting.

Sincerely,



Robert L. Emerson
State Budget Director



Michael J. Moody, CPA
Director, Office of Financial Management

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



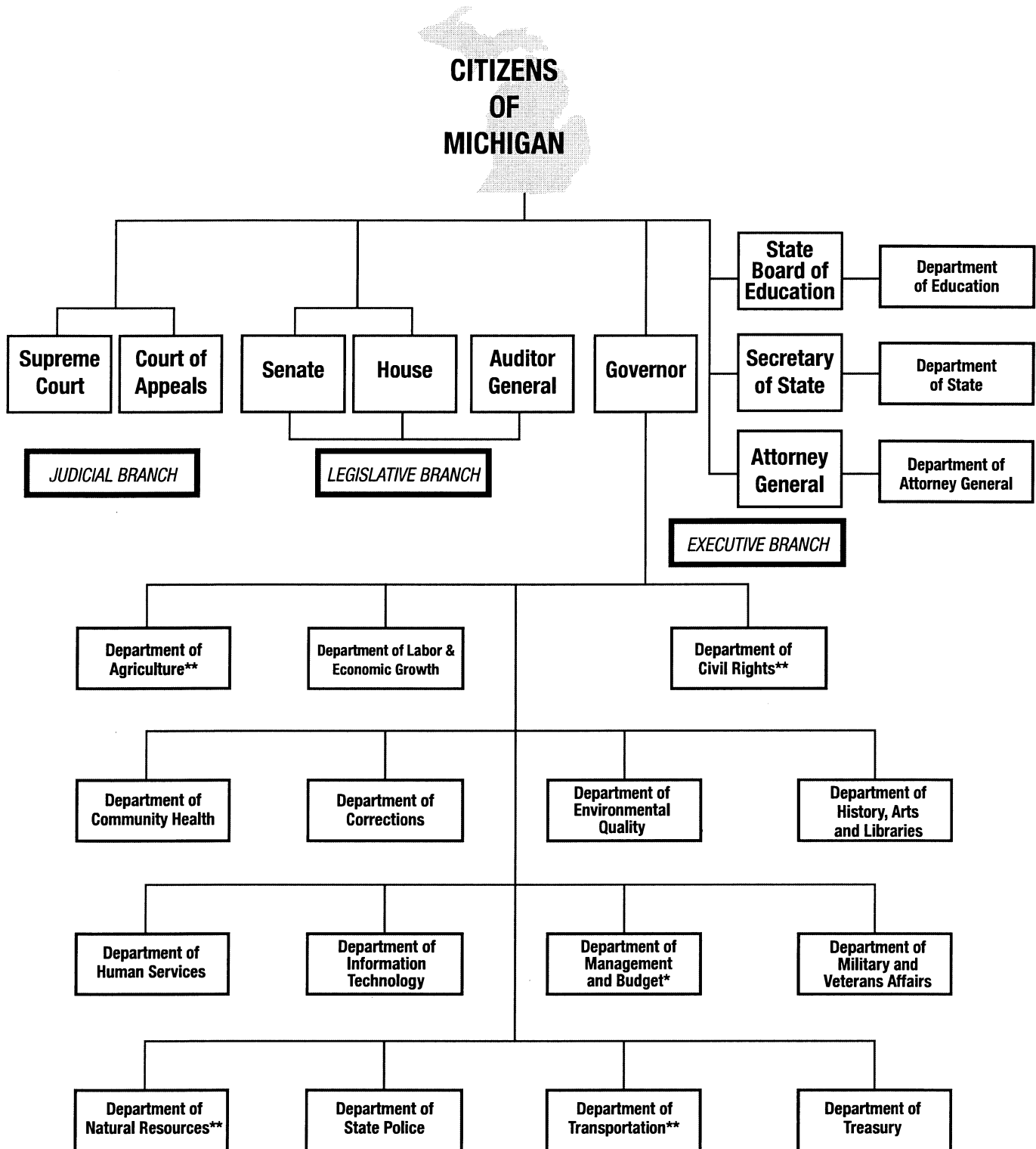
Charles S. Cox

President

Jeffrey R. Emer

Executive Director

STATE OF MICHIGAN ORGANIZATIONAL STRUCTURE



* Includes Civil Service Commission appointed by Governor

** Has Commission appointed by Governor, confirmed by Senate

STATE OF MICHIGAN
PRINCIPAL STATE OFFICIALS

JUDICIAL BRANCH

Supreme Court Justices
Honorable Clifford W. Taylor, Chief Justice
Honorable Michael F. Cavanagh, Justice
Honorable Maura D. Corrigan, Justice
Honorable Marilyn Kelly, Justice
Honorable Stephen J. Markman, Justice
Honorable Elizabeth A. Weaver, Justice
Honorable Robert P. Young, Jr., Justice

LEGISLATIVE BRANCH

Honorable Michael D. Bishop
Majority Leader of the Senate

Honorable Andy Dillon
Speaker of the House of Representatives

Thomas H. McTavish
Legislative Auditor General

EXECUTIVE BRANCH

Honorable Jennifer M. Granholm, Governor

Honorable John D. Cherry, Jr., Lt. Governor

Honorable Mike Cox, Attorney General

Honorable Terri Lynn Land, Secretary of State

State Board of Education
Kathleen N. Straus, President
John C. Austin
Elizabeth W. Bauer
Carolyn L. Curtin
Nancy Danhof
Marianne Yared McGuire
Reginald M. Turner
Casandra E. Ulbrich
Honorable Jennifer M. Granholm (Ex Officio)
Michael P. Flanagan
Superintendent of Public Instruction

Michigan Commission of Agriculture
James E. Byrum, Chair
Donald M. Coe
Ann Jousma-Miller
Dale N. Norton
Todd J. Regis
Donald W. Koivisto, Director, Department of Agriculture

Civil Rights Commission
Mohammed Abdrabboh, Chair
Mark Bernstein
Kelvin W. Scott
Tarun K. Sharma
Karen Henry Stokes
Matthew Wesaw
J. Michael Zelley
Vacant
Linda V. Parker, Director, Department of Civil Rights

Civil Service Commission
Bryan J. Waldman, Chair
Andrew P. Abood
Sherry L. McMillan
Thomas M. Wardrop
James D. Farrell, State Personnel Director

Janet Olszewski, Director
Department of Community Health

Patricia L. Caruso, Director
Department of Corrections

Steven E. Chester, Director
Department of Environment Quality

William A. Anderson, Director
Department of History, Arts and Libraries

Ismael Ahmed, Director
Department of Human Services

Kenneth D. Theis, Director
Department of Information Technology

Keith W. Cooley, Director
Department of Labor and Economic Growth

Lisa Webb Sharpe, Director
Department of Management and Budget

Robert L. Emerson, State Budget Director
Office of the State Budget

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs

Natural Resources Commission
Keith J. Charters, Chair
Mary C. Brown
Hurley J. Coleman, Jr.
Darnell Earley
John M. Madigan
J. R. Richardson
Frank C. Wheatlake
Rebecca A. Humphries, Director
Department of Natural Resources

Lt. Col. Peter C. Munoz, Director
Department of State Police

Transportation Commission
Ted B. Wahby, Chair
Linda Miller Atkinson
Maureen Miller Brosnan
Jerrold M. Jung
James R. Rosendall
James S. Scalici
Kirk T. Steudle, Director
Department of Transportation

Robert J. Kleine, State Treasurer



II. FINANCIAL SECTION

**INDEPENDENT AUDITOR'S REPORT
MANAGEMENT'S DISCUSSION AND ANALYSIS
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION**



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. McTAVISH, C.P.A.
AUDITOR GENERAL

Independent Auditor's Report

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, principally as of and for the year ended September 30, 2007, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the State Lottery Fund, Michigan Unemployment Compensation Funds, Michigan Employment Security Act - Administration Fund, State Building Authority - Debt Service Fund, State Building Authority - Capital Projects Fund, Attorney Discipline System, State Sponsored Group Insurance Fund, State Employees' Deferred Compensation Funds, State Police Pension Benefits Fund, State Police Other Postemployment Benefits Fund, State Employees' Pension Benefits Fund, State Employees' Other Postemployment Benefits Fund, Public School Employees' Pension Benefits Fund, Public School Employees' Other Postemployment Benefits Fund, Judges' Pension Benefits Fund, Judges' Other Postemployment Benefits Fund, State Employees' Defined Contribution Retirement Fund, Michigan Education Savings Program, Michigan State Housing Development Authority, Michigan Municipal Bond Authority, Farm Produce Insurance Authority, Mackinac Bridge Authority, Mackinac Island State Park Commission, Michigan Higher Education Assistance Authority, Michigan Higher Education Facilities Authority, Michigan Higher Education Student Loan Authority, Michigan State Hospital Finance Authority, State Bar of Michigan, Central Michigan University, Western Michigan University, Eastern Michigan University, Ferris State University, Grand Valley State University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Oakland University, and Saginaw Valley State University. Those financial statements reflect total assets and revenues or additions of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Total Revenues/Additions</u>
Governmental Activities	1.6%	1.5%
Business-Type Activities	95.4%	84.6%
Aggregate Discretely Presented Component Units	92.6%	94.0%
State Lottery Fund	100.0%	100.0%
Michigan Unemployment Compensation Funds	100.0%	100.0%
Aggregate Remaining Fund Information	94.2%	71.6%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for these component units and funds, are based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

The Honorable Jennifer M. Granholm, Governor
Members of the Legislature
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amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Michigan, as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the basic financial statements, the State of Michigan adopted Governmental Accounting Standards Board Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

The management's discussion and analysis on pages 5 through 13, budgetary comparison schedules and corresponding notes on pages 98 through 101, and information about infrastructure assets reported using the modified approach on pages 102 and 103 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Michigan's basic financial statements. The combining and individual fund statements and schedules - non-major funds listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory, statistical, and other information sections listed in the table of contents have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General
December 28, 2007



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the State of Michigan's (the State's) financial performance, providing an overview of the activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

HIGHLIGHTS

Government-wide:

- At September 30, 2007, the State's assets exceeded its liabilities by \$16.2 billion.
- The State's unrestricted net assets were (\$2.2) billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.
- The State's total net assets decreased by \$575.5 million (3.4 percent) during fiscal year 2007 as a result of long-term debt issuance and continued unemployment.

Fund Level:

- As of the close of the fiscal year, the State's governmental funds reported combined ending fund balances of \$3.8 billion. Of this amount, \$1.1 billion is *unreserved fund balance* in the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds and, therefore, available to fund general-purpose expenditures of those funds in future years. The remaining \$2.7 billion is reserved for specific purposes, such as education and transportation.
- The State's three major governmental funds, the General Fund, Counter-Cyclical Budget and Economic Stabilization Fund, and the School Aid Fund, closed the fiscal year with a combined total fund balance of \$1.1 billion. The General Fund and the Counter-Cyclical Budget and Economic Stabilization Fund ended the year with unreserved fund balances of \$259.1 million and \$2.1 million, respectively. In the School Aid Fund, the entire fund balance of \$94.0 million is reserved for specific purposes. In addition, another \$722.9 million is reserved for specific purposes such as multi-year projects and restrictively financed programs.
- The State's proprietary funds reported net assets at year-end of \$363.9 million. This represents a decrease of \$266.3 million (42.3 percent) compared to the prior year-end, mostly resulting from the increase in unemployment benefits paid from the Michigan Unemployment Compensation Funds.

Long-term Debt:

- The State's total long-term debt (bonds and notes payable) as of September 30, 2007 was \$8.2 billion. This is an increase of \$577.2 million since the last fiscal year-end. The increase represents the net difference between new issuances, payments, and refundings of outstanding debt, mostly related to the Michigan Tobacco Settlement Finance Authority (\$527.9 million).

More detailed information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 8.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements (Reporting the State as a Whole)

The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the State, as a whole, and about its activities that should help answer this question: How has the State's financial position, as a whole, changed as a result of this year's activities? These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets (pages 16 and 17) presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets measure whether the State's financial position is improving or declining.

The Statement of Activities (pages 18 and 19) presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both statements report three activities:

- *Governmental Activities* – Most of the State's basic services are reported under this category. Taxes and intergovernmental revenues generally fund these services. The Legislature, the Judiciary, and the general operations of the Executive departments fall within governmental activities.
- *Business-type Activities* – The State charges fees to customers to help it cover all or most of the cost of certain services it provides. Lottery tickets, liquor purchases, and the State's unemployment compensation services are examples of business-type activities.
- *Discretely Presented Component Units* – Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The State has 18 authorities and 10 universities that are reported as discretely presented component units of the State.

This report includes two schedules (pages 23 and 25) that reconcile the amounts reported on the governmental fund financial statements, which are prepared using the modified accrual basis of accounting, with the governmental activities in the government-wide statements, which are prepared using the accrual basis of accounting. The following table summarizes the differences between modified accrual and full accrual accounting:

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital assets of the general government (e.g., land, buildings, and infrastructure)	No	Yes
Liability for earned but deferred revenue	Yes	No
Assets and liabilities of internal service funds that primarily serve governmental funds	No	Yes
Net pension assets in excess of the annual required contribution	No	Yes
Deferred charges for debt issuance costs	No	Yes
Unmatured long-term debt (e.g., bonds, notes, capital lease obligations) net of unamortized premiums, discounts, and similar items	No	Yes
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e., claims and judgments, compensated absences, and net pension obligations)	No	Yes
Accrued interest on long-term debt	No	Yes
Liability for unearned deferred revenue	Yes	Yes

Michigan

Description	Reported in Governmental Fund Financial Statements (modified accrual basis)	Reported in Government- Wide Financial Statements (accrual basis)
Capital outlay spending	Yes	No
Debt service principal payments and refunding payments	Yes	No
Other financial sources, uses, and expenditures resulting from debt issuance	Yes	No
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, gain or loss on the sale
Revenues earned during the period but not yet available	No	Yes
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	No	Yes
Depreciation	No	Yes
Revenues and expenditures related to prior periods	Yes	No
Amortization of issuance costs, premiums, discounts, and similar items	No	Yes
Activities of internal service funds properly included within governmental activities	No	Yes

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found beginning on page 43 of this report.

Fund Financial Statements (Reporting the State's Major Funds)

The fund financial statements begin on page 22 and provide detailed information about the major individual funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the State uses to keep track of specific sources of funding and spending for a particular purpose. In addition to the major funds, page 106 begins the individual fund data for the non-major funds. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different accounting approaches.

- *Governmental funds* -- Most of the State's basic services are reported in the governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund financial statements provide a detailed short-term view of the State's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs. These funds are reported using *modified accrual* accounting, which measures cash and all other financial assets that can readily be converted to cash. Governmental funds include the General Fund and special revenue, capital project, debt service, and permanent funds.
- *Proprietary funds* -- When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary (enterprise and internal service) funds utilize accrual accounting, the same method used by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services for the State's other programs - such as risk management and state sponsored group insurance activities. Internal service funds are reported as governmental activities on the government-wide statements.

- *Fiduciary funds* -- The State acts as a trustee or fiduciary for its employee pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets beginning on page 34. These funds, which include pension (and other employee benefit), private-purpose, and agency funds, are reported using accrual accounting. The government-wide statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Additional Required Supplementary Information

Following the basic financial statements is additional Required Supplementary Information that further explains and supports the information in the financial statements. The Required Supplementary Information includes budgetary comparison schedules reconciling the statutory and generally accepted accounting principles (GAAP) fund balances at fiscal year-end, and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds, and non-major discretely presented component units. These funds are added together, by fund type, and presented in single columns in the basic financial statements, but are not reported individually, as with major funds, on the governmental fund financial statements.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The State's combined net assets decreased \$575.5 million (3.4 percent) over the course of this fiscal year's operations. The net assets of the governmental activities decreased \$309.2 million (1.9 percent) and business-type activities had a decrease of \$266.3 million (42.3 percent).

Statement of Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and other non-current assets	\$10,391.0	\$10,118.9	\$ 1,276.4	\$ 1,618.4	\$11,667.5	\$11,737.4
Capital assets	19,436.6	19,227.7	.4	.4	19,437.0	19,228.2
Total assets	29,827.7	29,346.7	1,276.8	1,618.8	31,104.5	30,965.5
Current liabilities	4,697.7	4,253.1	594.9	624.2	5,292.6	4,877.4
Long-term liabilities	9,271.4	8,925.8	318.0	364.4	9,589.4	9,290.2
Total liabilities	13,969.1	13,178.9	912.9	988.6	14,882.0	14,167.6
Net assets:						
Invested in capital assets, net of related debt	15,739.1	15,827.6	.4	.4	15,739.5	15,828.0
Restricted	2,292.8	2,065.0	358.7	622.0	2,651.5	2,686.9
Unrestricted	(2,173.3)	(1,724.8)	4.8	7.8	(2,168.5)	(1,717.0)
Total net assets	\$15,858.6	\$16,167.8	\$ 363.9	\$ 630.2	\$16,222.5	\$16,798.0

The largest component of the State's net assets (\$15.7 billion) reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Restricted net assets are the next largest component, comprising \$2.7 billion. These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The State's unrestricted net assets were (\$2.2) billion as of the close of the year. A positive balance in unrestricted net assets represents excess assets available to meet ongoing obligations. A negative balance means that it would be necessary to convert restricted assets to unrestricted assets if all ongoing obligations were immediately due and payable.

Michigan

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the State's net assets changed during the fiscal year:

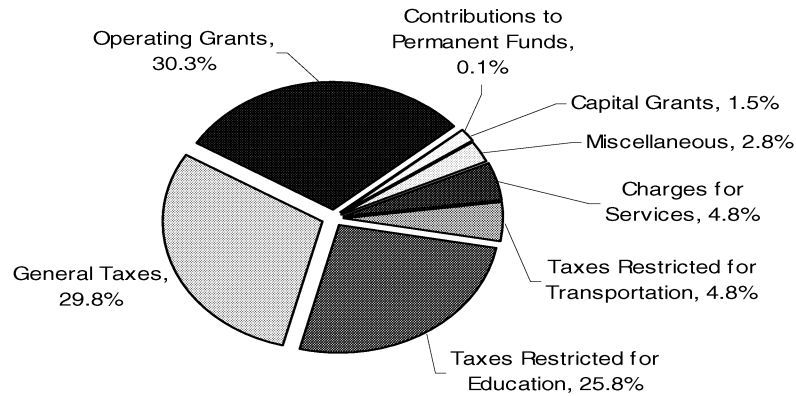
Changes in Net Assets For Fiscal Year Ending September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$1,947.0	\$1,862.1	\$4,876.6	\$4,682.7	\$6,823.6	\$6,544.8
Operating grants	12,300.1	11,624.8	55.8	53.9	12,355.9	11,678.7
Capital grants	627.1	779.3	-	-	627.1	779.3
General revenues						
General taxes	12,077.0	11,905.8	13.1	12.7	12,090.1	11,918.5
Taxes restricted for educational purposes	10,456.2	10,389.8	-	-	10,456.2	10,389.8
Taxes restricted for transportation purposes	1,965.3	1,994.8	-	-	1,965.3	1,994.8
Unrestricted investment and interest earnings	12.1	10.0	5.1	4.9	17.2	14.9
Miscellaneous	1,124.8	1,004.0	-	-	1,124.8	1,004.0
Total revenues	40,509.5	39,570.5	4,950.6	4,754.1	45,460.0	44,324.6
Expenses						
General government	2,205.7	2,288.5	-	-	2,205.7	2,288.5
Education	14,660.2	14,695.2	-	-	14,660.2	14,695.2
Human Services	4,453.5	4,384.3	-	-	4,453.5	4,384.3
Public safety and corrections	2,583.9	2,541.6	-	-	2,583.9	2,541.6
Conservation, environment, etc.	597.0	688.4	-	-	597.0	688.4
Labor, commerce, and regulatory	963.4	951.5	-	-	963.4	951.5
Health services	10,832.9	9,963.4	-	-	10,832.9	9,963.4
Transportation	3,191.8	3,133.1	-	-	3,191.8	3,133.1
Tax expenditures	883.4	834.0	-	-	883.4	834.0
Intergovernmental - revenue sharing	1,071.1	1,103.6	-	-	1,071.1	1,103.6
Interest on long-term debt	345.4	306.8	-	-	345.4	306.8
Liquor Purchase Revolving Fund	-	-	602.3	583.0	602.3	583.0
State Lottery Fund	-	-	1,654.8	1,584.2	1,654.8	1,584.2
Attorney Discipline System	-	-	4.3	4.1	4.3	4.1
Michigan Unemployment Compensation Funds	-	-	2,012.1	1,990.2	2,012.1	1,990.2
Total expenses	41,788.3	40,890.5	4,273.5	4,161.5	46,061.7	45,052.0
Excess (deficiency) Before Contributions and Transfers	(1,278.8)	(1,320.0)	677.1	592.6	(601.7)	(727.3)
Contributions to permanent fund principal	26.2	35.2	-	-	26.2	35.2
Transfers	943.5	864.4	(943.5)	(864.4)	-	-
Increase (decrease) in net assets	(309.2)	(420.4)	(266.3)	(271.8)	(575.5)	(692.2)
Net assets – beginning restated	16,167.8	16,588.2	630.2	902.0	16,798.0	17,490.2
Net assets – ending	\$15,858.6	\$16,167.8	\$363.9	\$630.2	\$16,222.5	\$16,798.0

Governmental Activities:

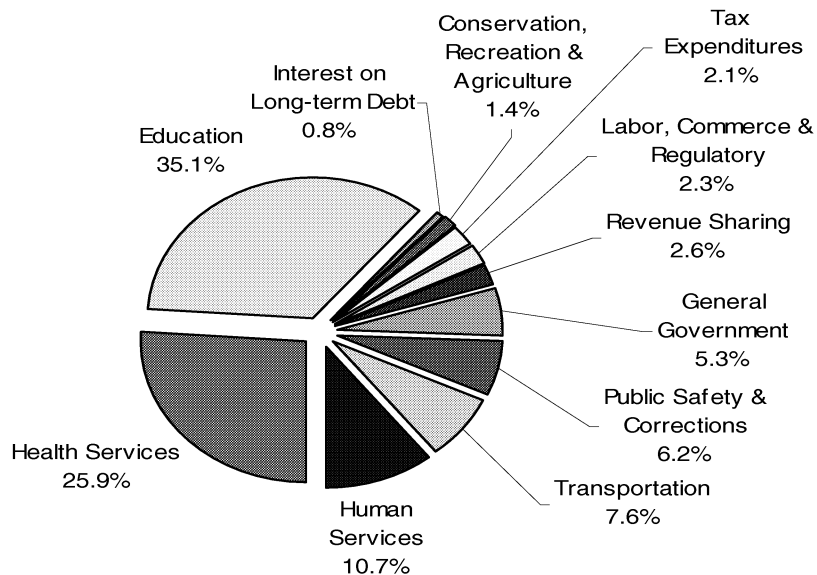
Revenues to fund governmental activities totaled \$40.5 billion for fiscal year 2007. Fund balances and other state assets were also used to support governmental activities. As shown in the accompanying chart, 30.3 percent of the governmental activities' revenue came from operating grants, primarily from the federal government, and were earmarked for specific uses, such as highway construction and health and human services programs. In addition, the State Constitution and other statutory restrictions earmarked 30.6 percent for educational and transportation purposes. Only 29.8 percent of the revenues were available for general use.

**Revenues - Governmental Activities for
Fiscal Year Ending September 30, 2007**
(\$40.5 billion)



Expenses related to governmental activities totaled \$41.8 billion during fiscal year 2007. The expenses include spending appropriated in prior years, such as capital outlay and work project authorization. As evidenced by the accompanying chart, education and health services represent the governmental activities' largest spending categories, accounting for 61.0 percent of the spending.

**Expenses - Governmental Activities for
Fiscal Year Ending September 30, 2007**
(\$41.8 billion)



Business-type Activities

The business-type activities' net assets decreased by \$266.3 million (42.3 percent) during the fiscal year. Factors contributing to these results included:

- The increase in unemployment in the State resulted in the Michigan Unemployment Compensation Funds finishing the fiscal year with a decrease in net assets of \$259.1 million (44.2 percent).
- The State Lottery Fund's net assets decreased by \$4.2 million (11.6 percent), which resulted from a decrease in the market value of investments that Lottery holds to fund future payments due for lottery prizes.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

As the State completed the year, its governmental funds reported fund balances of \$3.8 billion. Of this total amount, \$1.1 billion constitutes unreserved fund balance, which is available for appropriation for the general purposes of the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. The transportation-related funds (\$320.3 million) and the other state funds (\$398.4 million) comprise a significant portion of the unreserved fund balance. Although reported as unreserved fund balances, these amounts are dedicated to those specific funds and can only be used for specific activities. The remainder of fund balance is reserved and is not available for new spending because it has already been dedicated for various commitments, such as capital outlay projects.

General Fund

The General Fund is the chief operating fund of the State. At the end of fiscal year 2007, the General Fund unreserved fund balance was \$259.1 million and the reserved fund balance was \$722.9 million. While total fund balance decreased during the fiscal year by \$87.2 million (8.2 percent), unreserved fund balance increased by \$256.6 million (102.6 percent) as a result of controlled spending and increased general purpose revenues.

General Fund Budgetary Highlights:

During fiscal year 2007, the State was again faced with difficult budget challenges. In March 2007, Executive Order 2007-3 was issued authorizing expenditure reductions totaling \$274.2 million and transfers of unexpended balances and excess revenue from restricted revenue sources totaling \$70.4 million to be used as general fund – general purpose revenues. In addition to the executive order reductions, the original budget was amended by various supplemental appropriations and appropriation reductions. The following summarizes the differences between the original and final budget amounts:

- General-purpose tax revenues of \$8.5 billion were \$254.8 million more than the original estimate of \$8.3 billion.
- Restricted revenue inflows of \$14.6 billion were \$435.3 million less than the estimated \$15.1 billion.
- The General Fund received transfers of \$508.0 million from other appropriated funds. The largest transfer was from the Michigan Tobacco Settlement Finance Authority, totaling \$207.2 million and from the Liquor Purchase Revolving Fund, totaling \$162.4 million. In addition, the General Fund received one-time transfers from the Civilian Conservation Endowment Fund, totaling \$20 million and another \$50 million from the 21st Century Jobs Fund.

Differences between the final budget and actual spending result from spending authority lapses of \$137.6 million and restricted revenue authorized, but not spent, of \$8.2 million. At fiscal year-end, excess restricted revenues of \$395.6 million carried forward into fiscal year 2008 and are available upon appropriation.

All agencies finished the year with net lapses. However, Human Services and State Police reported line item over-expenditures of \$1.2 million and \$1.0 million, respectively.

School Aid Fund

Fund balance at September 30, 2007, totaled \$94.0 million, an increase of \$86.6 million from the prior year. Revenues and transfers to the fund totaled \$12.8 billion, up \$217.3 million from the prior year. Expenditures totaled \$12.7 billion, an increase of \$42.1 million over the previous year. A total of \$261.5 million in direct school aid expenditures were avoided due to the issuance of pension obligation credits to school districts by the Michigan Public Schools Employee Retirement System (MPERS). The retirement related expenditures offset by the pension obligation credits are contained in MPERS CAFR and are in addition to the school aid expenditures displayed in this report. The School Aid Stabilization Fund ended the year with \$82.4 million reserve.

Counter-Cyclical Budget and Economic Stabilization Fund

During the year, the BSF received \$73 thousand in interest earnings. As a result, fund balance increased to \$2.1 million.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2007, the State had invested \$19.4 billion, net of accumulated depreciation, in a broad range of capital assets (see the table below). Depreciation charges for this fiscal year totaled \$180.2 million.

Capital Assets as of September 30
(Net of Depreciation, In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 3,235.2	\$ 3,207.2	\$ -	\$ -	\$ 3,235.2	\$ 3,207.2
Land improvements	84.0	83.5	-	-	84.0	83.5
Buildings and improvements	2,075.0	2,123.6	-	-	2,075.0	2,123.6
Equipment	199.0	196.0	.4	.4	199.4	196.4
Infrastructure	12,814.9	12,629.2	-	-	12,814.9	12,629.2
Other	19.8	19.8	-	-	19.8	19.8
Subtotal	18,427.9	18,259.3	.4	.4	18,428.2	18,259.7
Construction in progress	1,008.8	968.5	-	-	1,008.8	968.5
Total	<u>\$19,436.6</u>	<u>\$19,227.7</u>	<u>\$.4</u>	<u>\$.4</u>	<u>\$19,437.0</u>	<u>\$19,228.2</u>

The most significant impact on capital assets during the year resulted from the road and bridge construction and repair projects.

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include the State's network of public transportation roads and bridges, including ancillary assets, such as guard rails, signs, lighting, culverts, fencing, and the like. The State is responsible for maintaining approximately 27,514 lane miles of roads and 4,759 bridges (spans in excess of 20 feet).

The State has consistently improved the assessed condition of roads over the past five years. The State's goal is to have more than 70% of roads in fair to excellent condition. The most recent condition assessment, completed for calendar year 2006, indicated that 83.2% of roads were considered fair or better.

The State's bridges have assessed conditions that are better than the established benchmarks. The most recent assessment (2006) indicated that the condition of the bridges had improved from the condition reported for 2005. For calendar year 2006, 86.4% of the bridges were assessed as structurally fair or better.

The legislature has not passed capital outlay appropriations for fiscal year 2008. However, \$368.8 million of unspent capital outlay authorizations that existed at September 30, 2007 are available to spend in fiscal year 2008. More detailed information about the State's capital assets is presented in Note 9 to the financial statements.

Long-term Debt: The State, along with the State Building Authority (SBA) and the Michigan Tobacco Settlement Finance Authority (MTSFA), blended component units of the State, are empowered by law to authorize, issue, and sell debt obligations. General obligation bonds, issued by the State, are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt, whose payment for principal and interest comes solely out of funds that receive legally restricted revenues. The State is not legally obligated for the debt issued by SBA or MTSFA. SBA's bonds generate revenue to finance the construction of facilities used by the State and universities. Revenues derived from leases on the facilities fund the debt service requirements. MTSFA's bonds provided funding to the 21st Century Jobs Fund for economic development initiatives and to support General Fund and School Aid Fund programs. More detailed information regarding the State's long-term obligations is presented in Notes 12 and 14 to the financial statements.

Michigan

Outstanding Bonded Debt as of September 30 (In Millions)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds (backed by the State)	\$1,487.5	\$1,793.5	\$ -	\$ -	\$1,487.5	\$1,793.5
Revenue bonds and notes (backed by specific tax and fee revenues)	6,725.9	5,842.6	-	-	6,725.9	5,842.6
Total	<u>\$8,213.3</u>	<u>\$7,636.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$8,213.3</u>	<u>\$7,636.1</u>

During the year, the State issued grant anticipation bonds to provide funding for federally-aided highway construction projects. The bonds are secured by the State's share of federal reimbursements from the Federal Highway Administration. In addition, the Michigan Tobacco Settlement Finance Authority issued taxable tobacco settlement asset backed bonds of \$527.9 million to fund General Fund and School Aid Fund programs.

Bond Ratings

The State's general obligations are rated AA- stable outlook by Standard & Poors and Aa3 stable outlook by Moody's.

Limitations on Debt

The State Constitution authorizes general obligation long-term borrowing, with approval of the Legislature and a majority of the voters, and general obligation short-term notes, of which the principal may not exceed 15% of undedicated revenues received in the preceding year. In fiscal year 2007, the State issued and repaid short-term borrowing totaling \$1.3 billion.

ECONOMIC CONDITION AND OUTLOOK

Michigan's economy relies heavily on the performance of the manufacturing sector, in general, and the auto industry, specifically. Given weak manufacturing employment performance, declining vehicle production, continued declines in Big 3 market share, and continued supply rationalization among vehicle suppliers, Michigan's employment performance has been below the national average. Substantial productivity gains in the manufacturing sector and vehicle industry have also contributed to Michigan's below average employment performance.

For 2007, Michigan employment is estimated to have declined by 65,000 jobs (1.5 percent) – the seventh straight year that Michigan employment has declined. From Michigan's employment peak in June 2000, Michigan has lost approximately 420,000 jobs. In contrast, Michigan employment had increased approximately 490,000 jobs above its pre-recession peak by this time after the 1990-1991 recession.

Personal income was up an estimated 1.9 percent and wages and salaries income fell an estimated 0.1 percent in 2007. Both personal income and wages and salaries failed to keep pace with the increase in consumer prices as measured by the Detroit consumer price index (2.1 percent).

Several factors are weighing on the national economy including sharp declines in the housing market, worsening credit markets and near record inflation-adjusted oil prices. As a result, the U.S. economic growth will remain tepid. Given this, Michigan employment is expected to decline in 2008 – although less so than in 2007, with 2008 employment falling by 1.2 percent. In 2008, Michigan personal income is projected to rise 2.3 percent, while wages and salaries are expected to increase 0.7 percent. With 2.0 percent inflation, real (inflation adjusted) personal income is forecast to increase while real wages and salaries are expected to decline in 2008.

CONTACTING THE STATE'S OFFICE OF FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. Additional copies of this report and other financial information can be obtained by visiting the Office of Financial Management website at www.michigan.gov/ofm. You can also contact the office by phone at (517) 373-3029.

The State's component units issue their own separately issued audited financial statements. These statements may be obtained by directly contacting the component unit. To obtain their phone numbers, you may contact the Office of Financial Management at (517) 373-3029.





II. FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2007

(In Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash	\$ 12,404	\$ 7,259	\$ 19,663	\$ 683,733
Equity in common cash (Note 5)	1,637,482	77,841	1,715,322	119,076
Taxes, interest, and penalties receivable (Note 6)	5,100,222	-	5,100,222	-
Internal balances	10,131	(10,131)	-	-
Amounts due from component units	7,939	373	8,311	-
Amounts due from primary government	-	-	-	149,743
Amounts due from federal government	887,760	1,650	889,410	37,092
Amounts due from local units	263,751	32,736	296,488	929,432
Inventories	43,883	8,460	52,343	21,535
Investments (Note 8)	288,890	182,291	471,181	1,378,476
Securities lending collateral (Note 8)	260,193	364,608	624,800	-
Other current assets	567,162	295,344	862,506	525,240
Total Current Assets	9,079,818	960,430	10,040,248	3,844,328
Restricted Assets:				
Cash and cash equivalents	-	-	-	22,307
Investments	-	-	-	423,865
Mortgages and loans receivable	-	-	-	48,585
Taxes, interest, and penalties receivable (Note 6)	317,612	-	317,612	-
Amounts due from federal government	6,941	-	6,941	-
Amounts due from local units	385,203	-	385,203	3,062,873
Mortgages and loans receivable	-	-	-	4,024,991
Investments (Note 8)	509,165	295,508	804,673	2,957,515
Capital Assets (Note 9):				
Land and other non-depreciable assets	3,271,899	-	3,271,899	114,496
Buildings, equipment, and other depreciable assets	4,934,686	4,477	4,939,163	4,554,205
Less accumulated depreciation	(2,315,453)	(4,110)	(2,319,563)	(1,737,645)
Infrastructure	12,536,722	-	12,536,722	102,722
Construction in progress	1,008,783	-	1,008,783	147,231
Total capital assets	19,436,636	367	19,437,002	3,181,008
Interest in joint ventures (Note 7)	32,434	-	32,434	-
Other noncurrent assets	59,847	20,500	80,347	357,570
Total Assets	\$ 29,827,656	\$ 1,276,805	\$ 31,104,461	\$ 17,923,043
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ 109,369	\$ 4,504	\$ 113,873	\$ 208
Obligations under security lending	260,193	364,608	624,800	-
Accounts payable and other liabilities	2,449,485	224,745	2,674,230	344,975
Income tax refunds payable (Note 15)	656,244	-	656,244	-
Amounts due to component units	3,225	-	3,225	-
Amounts due to primary government	-	-	-	4,538
Amounts due to federal government	-	-	-	397
Bonds and notes payable (Notes 12 and 13)	371,675	-	371,675	1,031,913
Interest payable	126,483	-	126,483	101,482
Deferred revenue	95,781	807	96,589	75,146
Current portion of other long-term obligations (Note 14)	625,197	253	625,450	130,912
Total Current Liabilities	4,697,653	594,917	5,292,570	1,689,570
Prize awards payable (Note 14)	-	267,719	267,719	-
Deferred revenue	14,559	-	14,559	5,082
Bonds and notes payable (Notes 12 and 13)	7,725,458	-	7,725,458	8,476,545
Noncurrent portion of other long-term obligations (Note 14)	1,531,394	50,292	1,581,686	1,500,113
Total Liabilities	\$ 13,969,064	\$ 912,928	\$ 14,881,992	\$ 11,671,310

The accompanying notes are an integral part of the financial statements.

	PRIMARY GOVERNMENT			COMPONENT UNITS
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	
NET ASSETS				
Invested in capital assets, net of related debt	\$ 15,739,094	\$ 367	\$ 15,739,461	\$ 1,962,702
Restricted For:				
Education	181,898	-	181,898	228,633
Construction and debt service	-	-	-	323,445
Public Safety and Corrections	1,241	-	1,241	-
Conservation, environment, recreation, and agriculture	367,897	-	367,897	-
Health and human services	45,625	-	45,625	-
Transportation	920,393	-	920,393	-
Unemployment compensation	-	326,834	326,834	-
Labor and economic growth	81,944	-	81,944	-
Other purposes	49,526	31,877	81,403	1,933,227
Funds Held as Permanent Investments:				
Expendable	111,669	-	111,669	66,654
Nonexpendable	532,586	-	532,586	250,875
Unrestricted	(2,173,281)	4,798	(2,168,482)	1,486,196
Total Net Assets	<u>\$ 15,858,592</u>	<u>\$ 363,877</u>	<u>\$ 16,222,469</u>	<u>\$ 6,251,732</u>

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

Functions/Programs	EXPENSES	PROGRAM REVENUES		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
Primary Government:				
Governmental Activities:				
General government	\$ 2,205,679	\$ 1,062,224	\$ 15,412	\$ 23,567
Education	14,660,163	10,377	1,437,607	-
Human services	4,453,497	59,285	3,119,153	-
Public safety and corrections	2,583,916	164,345	152,771	-
Conservation, environment, recreation, and agriculture	596,972	185,978	179,033	3,080
Labor, commerce, and regulatory	963,444	312,983	608,979	-
Health services	10,832,862	72,338	6,090,986	-
Transportation	3,191,784	79,459	696,126	600,410
Tax expenditures (Note 15)	883,400	-	-	-
Intergovernmental-revenue sharing	1,071,104	-	-	-
Interest on long-term debt	345,437	-	-	-
Total governmental activities	<u>41,788,258</u>	<u>1,946,989</u>	<u>12,300,068</u>	<u>627,057</u>
Business-type Activities:				
Liquor Purchase Revolving Fund	602,280	742,959	-	-
State Lottery Fund	1,654,823	2,363,001	48,270	-
Attorney Discipline System	4,282	4,782	-	-
Michigan Unemployment Compensation Funds	<u>2,012,082</u>	<u>1,765,871</u>	<u>7,513</u>	<u>-</u>
Total business-type activities	<u>4,273,467</u>	<u>4,876,614</u>	<u>55,783</u>	<u>-</u>
Total primary government	<u>\$ 46,061,725</u>	<u>\$ 6,823,602</u>	<u>\$ 12,355,851</u>	<u>\$ 627,057</u>
Component Units:				
Authorities:				
Michigan Education Trust	\$ 48,448	\$ 134	\$ 82,863	\$ -
Michigan State Housing Development Authority	575,543	173,163	414,460	-
Michigan Municipal Bond Authority	276,417	133,284	140,488	-
Non-Major	523,156	176,916	227,660	-
State Universities:				
Central Michigan University	334,876	236,179	28,951	6,987
Western Michigan University	470,055	270,391	77,401	9,044
Non-Major	<u>1,457,810</u>	<u>881,114</u>	<u>211,967</u>	<u>12,576</u>
Total component units	<u>\$ 3,686,306</u>	<u>\$ 1,871,182</u>	<u>\$ 1,183,791</u>	<u>\$ 28,607</u>

General Revenues:

Taxes:

General:

Sales and use
 Personal income
 Single business
 Other

Restricted For Educational Purposes:

Sales and use
 Personal income
 Education, property, and real estate transfers
 Other

Restricted For Transportation Purposes:

Sales and use
 Gasoline and diesel fuel
 Motor vehicle weight
 Other

Unrestricted investment and interest earnings

Miscellaneous

Contributions to permanent fund principal

Payments from State of Michigan

Special Items

Transfers

Total general and other revenue, payments, and transfers

Change in net assets

Net assets-beginning-restated

Net assets-ending

The accompanying notes are an integral part of the financial statements.

NET (EXPENSE) REVENUES AND CHANGES IN NET ASSETS			
PRIMARY GOVERNMENT			
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTALS	COMPONENT UNITS
\$ (1,104,477)	\$ -	\$ (1,104,477)	\$ -
(13,212,178)	-	(13,212,178)	-
(1,275,059)	-	(1,275,059)	-
(2,266,800)	-	(2,266,800)	-
(228,881)	-	(228,881)	-
(41,482)	-	(41,482)	-
(4,669,538)	-	(4,669,538)	-
(1,815,789)	-	(1,815,789)	-
(883,400)	-	(883,400)	-
(1,071,104)	-	(1,071,104)	-
(345,437)	-	(345,437)	-
(26,914,145)	-	(26,914,145)	-
-	140,679	140,679	-
-	756,448	756,448	-
-	500	500	-
-	(238,697)	(238,697)	-
-	658,929	658,929	-
(26,914,145)	658,929	(26,255,215)	-
-	-	-	34,549
-	-	-	12,080
-	-	-	(2,644)
-	-	-	(118,579)
-	-	-	(62,760)
-	-	-	(113,219)
-	-	-	(352,152)
-	-	-	(602,726)
2,635,341	-	2,635,341	-
5,321,169	-	5,321,169	-
1,771,854	-	1,771,854	-
2,348,619	13,133	2,361,752	-
5,230,217	-	5,230,217	-
2,142,251	-	2,142,251	-
2,336,474	-	2,336,474	-
747,241	-	747,241	-
67,678	-	67,678	-
1,016,957	-	1,016,957	-
874,287	-	874,287	-
6,339	-	6,339	-
12,097	5,055	17,151	150,761
1,124,818	-	1,124,818	57,422
26,165	-	26,165	-
-	-	-	663,240
-	-	-	(95,000)
943,460	(943,460)	-	-
26,604,970	(925,273)	25,679,697	776,424
(309,175)	(266,343)	(575,518)	173,698
16,167,767	630,220	16,797,987	6,078,034
\$ 15,858,592	\$ 363,877	\$ 16,222,469	\$ 6,251,732



GOVERNMENTAL FUND FINANCIAL STATEMENTS



Major Funds

GENERAL FUND

This fund is the State's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND

This fund, commonly referred to as the "Budget Stabilization Fund" or "Rainy Day Fund," was created by MCL Section 18.1351 to assist in stabilizing revenue during periods of economic recession. In general, transfers are made into this fund from the General Fund during improving economic times and funds flow from this fund to the General Fund in times of declining economy. Additional information regarding the fund is provided in Note 3.

SCHOOL AID FUND

An amendment to the 1908 State Constitution created this fund in 1955. The 1963 State Constitution provided for the fund's continued existence. Its purpose is to aid in the support of the public schools and the intermediate school districts of the State. School aid payments to school districts are based on a statutory formula. Michigan Compiled Laws Section 388.1611a, effective October 1, 2003, created the school aid stabilization fund as a separate account within the School Aid Fund. Pursuant to this act, any remaining unreserved fund balance in the School Aid Fund at year-end is transferred to this account.

The fund receives State revenues restricted to local school programs, including: the constitutionally dedicated sixty percent of the collections of sales tax imposed at a rate of 4% and all of the collections of sales tax imposed at the additional rate of 2%; State Lottery Fund earnings; a percentage of the adjusted gross receipts from casino gaming; the real estate transfer tax; and portions of the personal income, cigarette, liquor, and industrial and commercial facilities taxes. A constitutional amendment approved by voters in 1994 made structural changes in the method of financing local school districts. The amendment authorized the levy of a statewide property tax, which is deposited in the School Aid Fund. Appropriated transfers are also made from the General Fund.

Non-Major Funds

Non-major governmental funds are presented, by fund type, beginning on page 106.

BALANCE SHEET
GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2007
 (In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
ASSETS					
Current Assets:					
Cash	\$ 11,636	\$ -	\$ -	\$ 756	\$ 12,391
Equity in common cash (Note 5)	-	2,090	-	1,420,734	1,422,824
Taxes, interest, and penalties receivable (Note 6)	2,855,911	-	2,151,194	93,118	5,100,222
Amounts due from other funds (Note 17)	761,659	-	10,901	1,048,634	1,821,194
Amounts due from component units	4,332	-	-	3,505	7,837
Amounts due from federal agencies	664,306	-	43,168	175,380	882,853
Amounts due from local units	50,905	-	41,822	117,115	209,842
Inventories	19,111	-	-	6,967	26,077
Investments (Note 8)	-	-	-	288,890	288,890
Securities lending collateral	-	-	-	260,193	260,193
Other current assets	300,098	-	-	243,325	543,423
Total Current Assets	4,667,957	2,090	2,247,084	3,658,617	10,575,748
Taxes, interest, and penalties receivable (Note 6)	259,848	-	53,642	4,122	317,612
Advances to other funds (Note 17)	7,688	-	-	-	7,688
Amounts due from federal agencies	6,941	-	-	-	6,941
Amounts due from local units	327,593	-	8,457	49,153	385,203
Investments (Note 8)	-	-	-	509,165	509,165
Other noncurrent assets	8,727	-	-	5,270	13,998
Total Assets	\$ 5,278,755	\$ 2,090	\$ 2,309,182	\$ 4,226,327	\$ 11,816,354
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Warrants outstanding	\$ 92,931	\$ -	\$ 413	\$ 14,945	\$ 108,289
Obligations under security lending	-	-	-	260,193	260,193
Accounts payable and other liabilities (Note 22)	1,506,424	-	143,457	704,585	2,354,467
Income tax refunds payable (Note 15)	656,244	-	-	-	656,244
Amounts due to other funds (Note 17)	38,878	-	1,645,750	165,616	1,850,245
Amounts due to component units	3,225	-	-	-	3,225
Bonds and notes payable	-	-	-	146,700	146,700
Interest payable	-	-	-	777	777
Deferred revenue	1,648,630	-	371,925	226,979	2,247,533
Total Current Liabilities	3,946,333	-	2,161,545	1,519,795	7,627,673
Long-Term Liabilities:					
Deferred revenue	350,394	-	53,642	8,642	412,678
Total Liabilities	4,296,726	-	2,215,186	1,528,438	8,040,350
Fund Balances:					
Reserved fund balance (Note 21)	722,948	-	93,996	1,851,453	2,668,397
Unreserved fund balance reported in:					
General Fund	259,080	-	-	-	259,080
Special revenue funds	-	2,090	-	836,077	838,167
Debt service funds	-	-	-	208,868	208,868
Capital projects funds	-	-	-	(239,869)	(239,869)
Permanent funds	-	-	-	41,361	41,361
Total Fund Balances	982,028	2,090	93,996	2,697,890	3,776,004
Total Liabilities and Fund Balances	\$ 5,278,755	\$ 2,090	\$ 2,309,182	\$ 4,226,327	\$ 11,816,354

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

SEPTEMBER 30, 2007

(In Thousands)

Total fund balances for governmental funds \$ 3,776,004

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. (Note 9)

Land and other non-depreciable assets	3,262,729	
Buildings, equipment, and other depreciable assets	4,295,550	
Infrastructure	12,536,722	
Construction in progress	1,008,783	
Interest in joint ventures	32,434	
Accumulated depreciation	<u>(1,878,622)</u>	19,257,596

Certain tax revenues are earned but not available and therefore are not
reported in the funds. 2,275,483

Other long-term assets are not available to pay for current period
expenditures and therefore are deferred in the funds. 291,935

Internal service funds are used by management to charge the costs of
certain activities, such as insurance and telecommunications, to
individual funds. The assets and liabilities of the internal service funds
are included in governmental activities in the Statement of Net Assets. 186,951

Certain pension trust funds have been funded in excess of the annual
required contributions, creating a year-end asset. This asset is not a
current available resource and is not reported in the funds. (Note 10) 1,199

Deferred issue costs are reported as current expenditures in the funds.
However, deferred issue costs are amortized over the life of the bonds
and are included in the governmental activities in the Statement of Net
Assets. 42,550

Recoveries of prior year expenditures related to long-term liabilities. 53,909

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the funds. (Note 14)

Capital lease obligations	(237,739)	
Compensated absences	(474,252)	
Workers' compensation	(112,895)	
Litigation	(528,027)	
Net pension obligations	(587,749)	
Other long-term liabilities	<u>(10,232)</u>	(1,950,895)

Long-term bonded debt is not due and payable in the current period and
therefore is not reported in the funds. Unamortized premiums, loss on
refundings, and interest payable are not reported in the funds. However,
these amounts are included in the Statement of Net Assets. This is the
net effect of these balances on the statement. (Note 12)

Bonds and notes payable	(8,245,342)	
Unamortized premiums	(283,240)	
Less unamortized discounts	491,264	
Less deferred loss amount on refundings	86,885	
Accrued interest payable	<u>(125,706)</u>	<u>(8,076,139)</u>

Net assets of governmental activities \$ 15,858,592

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	GENERAL FUND	COUNTER - CYCLICAL BUDGET AND ECONOMIC STABILIZATION FUND	SCHOOL AID FUND	NON-MAJOR FUNDS	TOTALS
REVENUES					
Taxes	\$ 11,992,762	\$ -	\$ 10,404,255	\$ 1,973,867	\$ 24,370,884
From federal agencies	9,913,400	-	1,383,340	1,359,190	12,655,930
From local agencies	116,399	-	-	23,030	139,429
From services	280,976	-	-	3,394	284,370
From licenses and permits	268,975	-	-	175,865	444,841
Special Medicaid reimbursements	102,670	-	-	-	102,670
Miscellaneous	726,144	73	29,300	1,104,785	1,860,302
Total Revenues	23,401,327	73	11,816,894	4,640,131	39,858,425
EXPENDITURES					
Current:					
General government	1,324,803	-	-	269,074	1,593,877
Education	1,671,052	-	12,678,577	329,875	14,679,504
Human services	4,444,596	-	-	3,396	4,447,992
Public safety and corrections	2,464,956	-	-	2,556	2,467,512
Conservation, environment, recreation, and agriculture	323,647	-	-	244,751	568,398
Labor, commerce, and regulatory	770,177	-	-	186,845	957,023
Health services	10,610,327	-	-	130,958	10,741,285
Transportation	-	-	-	2,178,923	2,178,923
Tax expenditures (Note 15)	883,400	-	-	-	883,400
Capital outlay	32,509	-	-	1,329,593	1,362,102
Intergovernmental-revenue sharing	1,071,104	-	-	-	1,071,104
Debt service:					
Bond principal retirement	-	-	-	238,789	238,789
Bond interest and fiscal charges	-	-	-	329,171	329,171
Capital lease payments	45,523	-	-	551	46,074
Total Expenditures	23,642,094	-	12,678,577	5,244,482	41,565,154
Excess of Revenues over (under)					
Expenditures	(240,768)	73	(861,683)	(604,351)	(1,706,729)
OTHER FINANCING SOURCES (USES)					
Bonds and notes issued	-	-	-	1,008,107	1,008,107
Premium on bond issuance	-	-	-	18,662	18,662
Discount on bond issuance	-	-	-	(15,213)	(15,213)
Payment to refunded bond escrow agent	-	-	-	(240,280)	(240,280)
Capital lease acquisitions	20,164	-	-	742	20,906
Proceeds from sale of capital assets	2,478	-	-	2,869	5,347
Transfers from other funds (Note 19)	508,048	-	990,810	1,776,290	3,275,148
Transfers to other funds (Note 19)	(377,134)	-	(42,482)	(1,910,679)	(2,330,295)
Total Other Financing Sources (Uses)	153,556	-	948,328	640,497	1,742,382
Net changes in fund balances	(87,211)	73	86,645	36,146	35,653
Fund Balances - Beginning of fiscal year	1,069,240	2,017	7,350	2,661,743	3,740,351
Fund Balances - End of fiscal year	\$ 982,028	\$ 2,090	\$ 93,996	\$ 2,697,890	\$ 3,776,004

The accompanying notes are an integral part of the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

Net change in fund balance - total governmental funds \$ 35,653

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.
(Note 9)

Land and other non-depreciable assets	27,735	
Buildings, equipment, and other depreciable assets	104,521	
Infrastructure additions	156,782	
Construction in progress	40,307	
Gain on disposal of capital assets	5,347	
Accumulated depreciation	<u>(131,739)</u>	202,953

Certain revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. (6,978)

Decrease in equity interest in joint ventures (Note 7) (210)

Tax revenues that were reported as resources in the funds but were earned in prior fiscal years are not reported in the Statement of Activities. 136,714

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. (31,447)

Bond proceeds provide current financial resources to governmental funds by issuing debt which increases long-term bonded debt in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term bonded debt in the Statement of Net Assets. This is the amount proceeds exceed repayments. (Note 12)

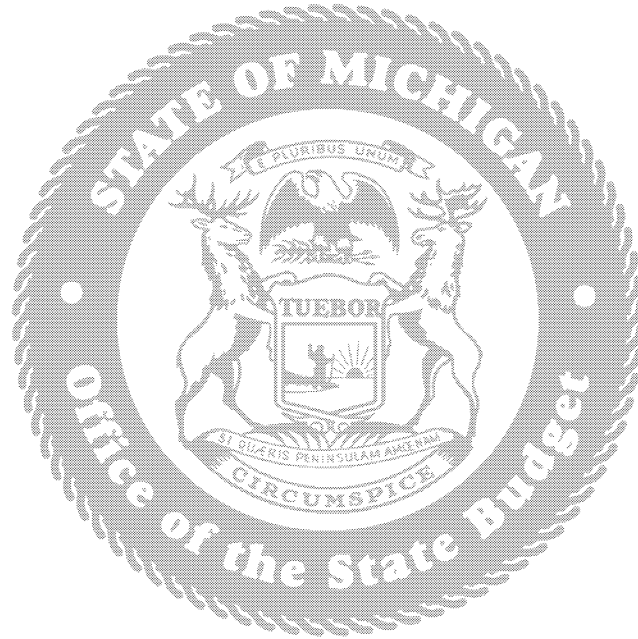
Bond proceeds and premiums received	(1,026,769)	
Repayment of bond principal	238,789	
Payment to refunded bond escrow agent	240,280	
Discount on bond issuances	15,213	
Accrued interest and amortization	(9,835)	
Deferred issue costs	<u>5,772</u>	(536,550)

Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.
(Note 14)

Net pension obligation	(130,335)	
Capital lease payments	15,095	
Compensated absences payments	16,421	
Litigation recoveries, settlements and payments	(4,857)	
Workers' compensation	(1,070)	
Other	<u>(4,563)</u>	(109,310)

Change in net assets of governmental activities \$ (309,175)

The accompanying notes are an integral part of the financial statements.



PROPRIETARY FUND FINANCIAL STATEMENTS



Major Funds

STATE LOTTERY FUND

Michigan Compiled Laws Section 432.41 established the State Lottery Fund and MCL Section 432.5 created a Bureau of State Lottery under authority of Article 5, Section 4, of the State Constitution. This authority expired on August 1, 1974, at which time the Bureau became an organizational entity in the Department of Management and Budget. The Bureau was transferred to the Department of Treasury during fiscal year 1991. Net income of the fund related to lottery operations is transferred to the School Aid Fund and the fund's net income related to bingo and charity games regulation is transferred to the General Fund. The remaining net assets balance represents the unrealized cumulative gain or loss on investments, as required by GASB Statement No. 31.

Revenues and related expenses are recognized in the period during which the related drawings are held. Deferred prize awards are recorded as expenses and liabilities at their discounted present value. The State Treasurer invests funds equivalent to the discounted value of the installment payments and the Lottery Fund is credited with the interest earnings.

MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS

The columns for the Michigan Unemployment Compensation Funds reflect the activity of two funds administered by the Bureau of Worker's and Unemployment Compensation within the Department of Labor and Economic Growth: the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund. The Michigan Unemployment Compensation Fund receives contributions from employers and provides for the payment of benefits to eligible unemployed workers. The fund also makes payments under certain federally funded programs. Administrative costs of the fund are accounted for in the Michigan Employment Security Act - Administration Fund, a special revenue fund.

The Michigan Employment Security Act Contingent Fund was created by MCL Section 421.10 to receive a special temporary unemployment tax surcharge, known as the solvency tax. The fund also receives interest and penalty charges on late contributions. Michigan Compiled Laws Section 421.10 restricts use of solvency taxes for payment of interest on the Michigan Unemployment Compensation borrowings from the federal government.

A portion of the asset "Amounts due from other funds" and the liability "Amounts due to other funds" represent receivables and payables between the Michigan Unemployment Compensation Fund and the Michigan Employment Security Act Contingent Fund.

Non-Major Funds

Individual fund statements for the Enterprise Funds, whose combined totals are presented on this statement, begin on page 168.

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page 172.

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
 SEPTEMBER 30, 2007
 (In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
ASSETS					
Current Assets:					
Cash	\$ 2	\$ 5,676	\$ 1,581	\$ 7,259	\$ 13
Equity in common cash (Note 5)	4,584	12,807	60,449	77,841	214,657
Amounts due from other funds (Note 17)	-	5,539	-	5,539	35,270
Amounts due from component units	-	373	-	373	101
Amounts due from federal agencies	-	1,650	-	1,650	4,907
Amounts due from local units	-	32,736	-	32,736	-
Inventories	4,049	-	4,412	8,460	17,805
Investments (Note 8)	75,386	103,629	3,276	182,291	-
Securities lending collateral	364,608	-	-	364,608	-
Other current assets	66,615	219,573	9,156	295,344	22,584
Total Current Assets	515,243	381,984	78,874	976,101	295,338
Investments (Note 8)	295,508	-	-	295,508	-
Capital Assets (Note 9):					
Land and other non depreciable assets	-	-	-	-	9,170
Buildings and equipment	3,743	-	734	4,477	639,135
Allowance for depreciation	(3,403)	-	(707)	(4,110)	(436,831)
Total capital assets	340	-	27	367	211,474
Other noncurrent assets	-	20,500	-	20,500	2,100
Total Assets	\$ 811,092	\$ 402,484	\$ 78,901	\$ 1,292,476	\$ 508,912
LIABILITIES					
Current Liabilities:					
Warrants outstanding	\$ 1,032	\$ -	\$ 3,472	\$ 4,504	\$ 1,081
Accounts payable and other liabilities (Note 22)	132,773	23,268	68,616	224,657	78,736
Amounts due to other funds (Note 17)	10,986	4,696	76	15,758	11,214
Deferred revenue	-	338	469	807	17,547
Obligations under security lending (Note 8)	364,608	-	-	364,608	-
Current portion of other long-term obligations (Note 14)	162	-	91	253	88,831
Total Current Liabilities	509,561	28,303	72,724	610,587	197,409
Long-Term Liabilities:					
Advances from other funds (Note 17)	-	-	-	-	7,688
Prize awards payable	267,719	-	-	267,719	-
Noncurrent portion of other long-term obligations (Note 14)	1,934	47,346	1,012	50,292	116,864
Total Liabilities	779,215	75,649	73,735	928,599	321,961
NET ASSETS					
Invested in capital assets, net of related debt	\$ 340	\$ -	\$ 27	\$ 367	\$ 201,268
Restricted For:					
Unemployment compensation	-	326,834	-	326,834	-
Other purposes	31,877	-	-	31,877	4,680
Unrestricted	(340)	-	5,139	4,798	(18,998)
Total Net Assets	\$ 31,877	\$ 326,834	\$ 5,165	\$ 363,877	\$ 186,951

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR			TOTALS	
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR		
OPERATING REVENUES					
Operating revenues	\$ 2,363,001	\$ 1,765,871	\$ 747,741	\$ 4,876,614	\$ 1,762,040
Total Operating Revenues	2,363,001	1,765,871	747,741	4,876,614	1,762,040
OPERATING EXPENSES					
Salaries, wages, and other administrative	280,901	2	62,650	343,554	523,202
Depreciation	140	-	10	150	48,447
Purchases for resale	-	-	542,634	542,634	69,971
Purchases for prison industries	-	-	-	-	19,641
Lottery prize awards	1,329,081	-	-	1,329,081	-
Premiums and claims	-	-	49	49	1,083,868
Unemployment benefits	-	1,920,346	-	1,920,346	-
Other operating expenses	-	91,734	1,220	92,954	46,421
Total Operating Expenses	1,610,123	2,012,082	606,562	4,228,767	1,791,551
Operating Income (Loss)	752,878	(246,211)	141,179	647,847	(29,511)
NONOPERATING REVENUES (EXPENSES)					
Specific tax on spirits	-	-	13,133	13,133	-
Interest revenue	5,186	-	4,872	10,058	-
Investment revenue (expense) - net	43,084	7,513	183	50,780	-
Other nonoperating revenues	-	-	-	-	471
Amortization of prize award obligation discount	(24,884)	-	-	(24,884)	-
Interest expense	(19,816)	-	-	(19,816)	(1,047)
Other nonoperating expense	-	-	-	-	(53)
Total Nonoperating Revenues (Expenses)	3,569	7,513	18,188	29,270	(629)
Income (Loss) Before Transfers	756,448	(238,697)	159,367	677,117	(30,141)
TRANSFERS					
Transfers To:					
School Aid Fund	(748,901)	-	-	(748,901)	-
Other funds	(11,749)	(20,371)	(162,440)	(194,560)	(1,307)
Total transfers to other funds	(760,649)	(20,371)	(162,440)	(943,460)	(1,307)
Change in net assets	(4,202)	(259,068)	(3,073)	(266,343)	(31,447)
Total net assets - Beginning of fiscal year	36,079	585,903	8,239	630,220	218,398
Total net assets - End of fiscal year	\$ 31,877	\$ 326,834	\$ 5,165	\$ 363,877	\$ 186,951

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	MAJOR				
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from federal and local agencies	\$ -	\$ 91,469	\$ -	\$ 91,469	\$ -
Receipts from customers	2,357,674	1,645,549	742,959	4,746,183	1,768,285
Membership dues	-	-	4,944	4,944	-
Payments to employees	(14,347)	-	(16,582)	(30,929)	(198,012)
Payments to suppliers	(45,792)	-	(583,979)	(629,771)	(723,609)
Payments to prize winners	(1,404,491)	-	-	(1,404,491)	-
Payments for commissions to retailers	(216,569)	-	-	(216,569)	-
Claims paid	-	(2,018,917)	-	(2,018,917)	(819,239)
Other receipts	-	32,599	(3,625)	28,974	-
Other payments	-	(2)	(1,628)	(1,630)	(7,712)
Net cash provided (used)					
by operating activities	\$ 676,475	\$ (249,302)	\$ 142,089	\$ 569,262	\$ 19,712
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Advances from federal government	\$ -	\$ 502,400	\$ -	\$ 502,400	\$ -
Advance repayments to federal government	-	(502,400)	-	(502,400)	-
Loans or loan repayments from other funds	-	-	-	-	3,415
Loans or loan repayments to other funds	-	-	-	-	(1,217)
Specific tax on spirits	-	-	13,133	13,133	-
Transfers to other funds	(767,766)	(21,537)	(162,440)	(951,743)	(1,307)
Net cash provided (used)					
by noncapital financing activities	\$ (767,766)	\$ (21,537)	\$ (149,307)	\$ (938,610)	\$ 891
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	\$ (93)	\$ -	\$ (12)	\$ (105)	\$ (35,995)
Interest paid	-	-	-	-	(393)
Capital lease payments					
(including imputed interest expense)	-	-	-	-	(7,781)
Proceeds from sale of capital assets	-	-	-	-	109
Net cash provided (used) by capital and related financing activities	\$ (93)	\$ -	\$ (12)	\$ (105)	\$ (44,060)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds (purchases) from sale and maturities of investment securities	\$ 87,130	\$ 263,361	\$ (1,102)	\$ 349,389	\$ -
Interest and dividends on investments	5,186	7,513	4,872	17,571	-
Income from securities lending activities	20,811	-	-	20,811	-
Expenses from securities lending activities	(19,816)	-	-	(19,816)	-
Net cash provided (used)					
by investing activities	\$ 93,310	\$ 270,874	\$ 3,770	\$ 367,954	\$ -
Net cash provided (used) - all activities	\$ 1,925	\$ 35	\$ (3,459)	\$ (1,499)	\$ (23,457)
Cash and cash equivalents at beginning of year	1,629	18,448	62,017	82,094	237,047
Cash and cash equivalents at end of year	\$ 3,555	\$ 18,483	\$ 58,558	\$ 80,595	\$ 213,590

The accompanying notes are an integral part of the financial statements.

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS				
	MAJOR				GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	STATE LOTTERY FUND	MICHIGAN UNEMPLOYMENT COMPENSATION FUNDS	NON-MAJOR	TOTALS	
RECONCILIATION OF CASH AND CASH EQUIVALENTS					
Per Statement of Net Assets Classifications:					
Cash	\$ 2	\$ 5,676	\$ 1,581	\$ 7,259	\$ 13
Equity in common cash	4,584	12,807	60,449	77,841	214,657
Warrants outstanding	(1,032)	-	(3,472)	(4,504)	(1,081)
Cash and cash equivalents at end of year	<u>\$ 3,555</u>	<u>\$ 18,483</u>	<u>\$ 58,558</u>	<u>\$ 80,595</u>	<u>\$ 213,590</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ 752,878	\$ (246,211)	\$ 141,179	\$ 647,846	\$ (29,512)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation expense	140	-	10	150	48,447
Amortization of prize award obligation discount	(24,884)	-	-	(24,884)	-
Other reconciling items	187	-	-	187	-
Net Changes in Assets and Liabilities:					
Inventories	256	-	(1,584)	(1,329)	(1,214)
Other assets (net)	(5,327)	(249)	(2,123)	(7,699)	15,041
Accounts payable and other liabilities	3,751	(2,802)	4,285	5,234	(13,050)
Prize awards payable	(50,526)	-	-	(50,526)	-
Deferred revenue	-	(40)	323	283	-
Net cash provided (used) by operating activities	<u>\$ 676,475</u>	<u>\$ (249,302)</u>	<u>\$ 142,089</u>	<u>\$ 569,262</u>	<u>\$ 19,712</u>
SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES					
Cost of capital assets acquisitions financed by capital leases	\$ -	\$ -	\$ -	\$ -	\$ 3,450
Capital lease liabilities entered into during the year	-	-	-	-	(3,450)
Increase (decrease) in fair value of investments	(4,202)	-	-	(4,202)	-
Transfers to other funds (accrual)	(10,901)	(1,006)	-	(11,907)	-
Gain (loss) on disposal of capital assets	-	-	-	-	(36)
Total noncash investing, capital, and financing activities	<u>\$ (15,102)</u>	<u>\$ (1,006)</u>	<u>\$ -</u>	<u>\$ (16,108)</u>	<u>\$ (36)</u>



FIDUCIARY FUND FINANCIAL STATEMENTS



Individual fund financial statements begin on the following pages:
Pension (and Other Employee Benefit) Trust Funds, page 180.
Private Purpose Trust Funds, page 188.
Agency Funds, page 191.

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

SEPTEMBER 30, 2007

(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS	AGENCY FUNDS
ASSETS			
Cash	\$ 68	\$ 1,556	\$ 50,756
Equity in common cash (Note 5)	147,124	100,723	3,969
Receivables:			
From participants	206,166	-	-
From employers	584,820	-	-
Interest and dividends	3,987	541	-
Due from other funds (Note 17)	16,371	-	-
Due from component unit	155	-	-
Sale of investments	682	-	-
Investments at Fair Value (Note 8):			
Short term investments	1,277,264	-	13,419
Bonds, notes, mortgages, and preferred stock	10,297,892	17,865	6,866
Common stock	29,556,439	183	-
Real estate	5,697,133	-	-
Alternative investments	8,651,295	-	-
International investments	7,116,304	-	-
Mutual funds	2,724,565	1,659,423	-
Pooled investment funds	2,101,011	-	-
Money market funds	218,648	-	-
Guaranteed funding agreements	-	169,706	-
Securities lending collateral (Note 8)	13,236,366	7,075	-
Other current assets	-	8,540	745
Other noncurrent assets	-	-	383,764
Total assets	<u>\$ 81,836,289</u>	<u>\$ 1,965,612</u>	<u>\$ 459,519</u>
LIABILITIES			
Warrants outstanding	\$ 11,011	\$ 3,097	\$ 5
Accounts payable and other liabilities	301,632	3,646	67,630
Amounts due to other funds (Note 17)	2	-	1,155
Obligations under security lending	13,236,366	7,075	-
Other long-term liabilities	-	-	390,729
Total liabilities	<u>\$ 13,549,010</u>	<u>\$ 13,819</u>	<u>\$ 459,519</u>
NET ASSETS			
Net assets held in trust for pension, postemployment health-care, deferred compensation participants, and other purposes	<u>\$ 68,287,279</u>	<u>\$ 1,951,794</u>	
Reconciliation of Net Assets Held in Trust:			
Pension benefits (Note 10)	\$ 63,250,632	\$ -	
Postemployment health-care benefits (Note 10)	820,160	-	
Deferred compensation participants (Note 16)	4,216,487	-	
Other purposes	-	1,951,794	
Total net assets held in trust for benefits and other purposes	<u>\$ 68,287,279</u>	<u>\$ 1,951,794</u>	

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FISCAL YEAR ENDED SEPTEMBER 30, 2007
(In Thousands)

	PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
ADDITIONS		
Contributions:		
From participants	\$ 686,770	\$ 346,133
From employers	2,149,372	-
From clients	-	65,669
From gifts, bequests, and endowments	-	2,939
From other plans	45,002	-
From other governmental	63	-
Investment Income:		
Net appreciation (depreciation) in fair value of investments	8,488,199	106,704
Interest, dividends, and other	1,513,991	76,745
Securities lending income	603,676	389
Less Investment Expense:		
Investment activity expense	87,447	4,051
Securities lending expense	579,498	377
Net investment income (loss)	9,938,921	179,411
Escheated property	-	56,861
Miscellaneous income	7,307	256
Total Additions	12,827,435	651,270
DEDUCTIONS		
Benefits paid to participants or beneficiaries	4,145,582	88,497
Medical, dental, and life insurance for retirants	988,364	-
Refunds and transfers to other systems	78,434	-
Amounts distributed to clients, claimants, or third parties	-	122,372
Administrative expense	102,538	4,248
Transfers to other funds	85	-
Total Deductions	5,315,003	215,117
Net increase (decrease)	7,512,432	436,153
Net assets - Beginning of fiscal year	60,774,847	1,515,641
Net assets - End of fiscal year (Note 10)	\$ 68,287,279	\$ 1,951,794
Reconciliation of Net Increase in Assets:		
Net increase (decrease) in assets held in trust for pension benefits	\$ 6,948,203	\$ -
Net increase (decrease) in assets held in trust for postemployment benefits	116,399	-
Net increase (decrease) in assets held in trust for deferred compensation participants	447,830	-
Net increase (decrease) in assets held in trust for other purposes	-	436,153
Total net increase (decrease)	\$ 7,512,432	\$ 436,153

The accompanying notes are an integral part of the financial statements.



COMPONENT UNIT FINANCIAL STATEMENTS



Major Funds

MICHIGAN EDUCATION TRUST

The Michigan Education Trust (MET) operates a prepaid tuition program. A purchaser enters into a contract with MET which provides that in return for a specified actuarially determined payment, MET will provide a Michigan child's undergraduate tuition at any Michigan public university or community college. The amount the purchaser is required to pay is based on several factors, among them are tuition costs, the child's age and grade in school, anticipated investment earnings, tuition rate increases, and the type of contract purchased.

Michigan Compiled Laws Section 390.1425, the Michigan Education Trust Act, created MET. The MET is governed by a nine-member board that consists of the State Treasurer and eight other individuals appointed by the Governor with the advice and consent of the Senate. Although MET is administratively located within the Michigan Department of Treasury, the law provides its assets are not to be considered assets of the State and are not to be loaned or otherwise transferred or used by the State for any purpose other than the purposes specified in the law. The law and contracts also specifically provide that the State is not liable if MET becomes actuarially unsound. In that event, the contracts provide for refunds to participants.

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY

Michigan Compiled Laws Section 125.1421 created the Michigan State Housing Development Authority (MSHDA) to issue notes and bonds to finance housing for sale or rental to families with low or moderate incomes and to finance home improvements. MSHDA is also the administrator of various "Section 8" housing programs in Michigan for the U.S. Department of Housing and Urban Development. The Governor appoints MSHDA's board members.

MICHIGAN MUNICIPAL BOND AUTHORITY

Michigan Compiled Laws Section 141.1054 created the Michigan Municipal Bond Authority (MMBA) to assist local units of government in reducing their financing costs for public improvements, deficit reduction, and various other municipal purposes. The MMBA pools the borrowing needs of various units and issues limited obligation debt, the proceeds of which are used to purchase local unit obligations or to make loans to local units.

The MMBA is governed by a board of trustees consisting of the State Treasurer, two appointees of the Governor, and four state residents appointed by the Governor, with the advice and consent of the Senate.

The MMBA and the Department of Environmental Quality serve as co-administrators of a special State Revolving Fund, which is reported as part of MMBA. The State Revolving Fund assists governmental units in financing water quality projects. Federal government and State matching provides financing for this activity along with investment interest earnings and/or other available funds. The MMBA's separately issued financial reports provide a separate accounting of this fund's activities.

CENTRAL MICHIGAN UNIVERSITY AND WESTERN MICHIGAN UNIVERSITY

Central Michigan University and Western Michigan University are the two major universities of the ten universities included in this report. They are legally separate entities whose governing boards are appointed by the Governor and for which the State is therefore, defined as legally accountable. Excluded from this report are three other universities (University of Michigan, Michigan State University and Wayne State University) whose board members are elected by the voters and, therefore, considered separate special purpose governments.

Non-Major Funds

The non-major component unit - authorities are presented beginning on page 196.

The non-major component unit - State universities are presented beginning on page 204.

STATEMENT OF NET ASSETS
COMPONENT UNITS
 SEPTEMBER 30, 2007
 (In Thousands)

	AUTHORITIES			
	MICHIGAN EDUCATION TRUST	MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY	MICHIGAN MUNICIPAL BOND AUTHORITY	NON-MAJOR
ASSETS				
Current Assets:				
Cash	\$ 98,382	\$ 138,813	\$ 110	\$ 129,850
Equity in common cash (Note 5)	-	-	67,828	51,248
Amounts due from primary government	1,754	-	2,100	4,781
Amounts due from federal government	-	-	-	20,545
Amounts due from local units	-	-	909,580	19,610
Inventories	-	-	-	658
Investments (Note 8)	-	41,051	896,085	304,637
Other current assets	26,721	55,843	47,366	300,480
Total Current Assets	<u>126,858</u>	<u>235,708</u>	<u>1,923,068</u>	<u>831,809</u>
Restricted Assets:				
Cash and cash equivalents	-	-	-	6,685
Investments	-	-	-	2,461
Mortgages and loans receivable	-	-	-	-
Amounts due from local units	-	-	3,062,873	-
Mortgages and loans receivable	-	2,082,331	-	1,910,229
Investments (Note 8)	865,688	512,575	957,400	36,162
Capital Assets:				
Land and other non-depreciable assets	-	-	-	13,427
Buildings, equipment, and other depreciable assets	-	-	-	61,089
Less accumulated depreciation	-	-	-	(32,062)
Infrastructure	-	-	-	102,722
Construction in progress	-	-	-	-
Total capital assets	-	-	-	145,175
Other noncurrent assets	55,196	48,981	187,109	17,597
Total Assets	<u>\$ 1,047,743</u>	<u>\$ 2,879,594</u>	<u>\$ 6,130,451</u>	<u>\$ 2,950,118</u>
LIABILITIES				
Current Liabilities:				
Warrants outstanding	\$ -	\$ -	\$ -	\$ 208
Accounts payable and other liabilities	5	31,818	4,430	43,945
Amounts due to primary government	-	-	186	2,246
Amounts due to federal government	-	-	-	397
Bonds and notes payable (Note 13)	-	46,020	889,096	54,113
Interest payable	-	12,070	73,909	9,149
Deferred revenue	-	-	8,221	2,154
Current portion of other long-term obligations	114,007	-	-	5,277
Total Current Liabilities	<u>114,012</u>	<u>89,908</u>	<u>975,842</u>	<u>117,490</u>
Deferred revenue	-	-	-	-
Bonds and notes payable (Note 13)	-	1,739,182	3,257,095	2,289,619
Noncurrent portion of other long-term obligations	922,761	398,200	38,307	63,269
Total Liabilities	<u>\$ 1,036,772</u>	<u>\$ 2,227,290</u>	<u>\$ 4,271,244</u>	<u>\$ 2,470,378</u>
NET ASSETS				
Invested in capital assets, net of related debt	\$ -	\$ -	\$ -	\$ 143,864
Restricted For:				
Education	-	-	-	-
Construction and debt service	-	266,612	-	17,728
Other purposes	-	-	1,846,996	24,233
Funds Held as Permanent Investments:				
Expendable	-	-	-	-
Nonexpendable	-	-	-	-
Unrestricted	10,970	385,692	12,211	293,915
Total Net Assets	<u>\$ 10,970</u>	<u>\$ 652,304</u>	<u>\$ 1,859,207</u>	<u>\$ 479,740</u>

The accompanying notes are an integral part of the financial statements.

STATE UNIVERSITIES

CENTRAL MICHIGAN UNIVERSITY	WESTERN MICHIGAN UNIVERSITY	NON-MAJOR	TOTALS
\$ 27,731	\$ 20,916	\$ 267,931	\$ 683,733
-	-	-	119,076
42,894	8,156	90,058	149,743
692	2,371	13,484	37,092
-	68	174	929,432
5,158	5,813	9,905	21,535
-	25,225	111,479	1,378,476
17,924	20,547	56,358	525,240
<u>94,399</u>	<u>83,096</u>	<u>549,389</u>	<u>3,844,328</u>
6,791	-	8,831	22,307
48,288	198,781	174,335	423,865
8,373	-	40,213	48,585
-	-	-	3,062,873
-	8,958	23,474	4,024,991
173,586	71,869	340,235	2,957,515
10,875	14,360	75,834	114,496
580,276	964,209	2,948,631	4,554,205
(251,664)	(346,753)	(1,107,166)	(1,737,645)
-	-	-	102,722
30,467	34,018	82,745	147,231
369,954	665,835	2,000,044	3,181,008
-	16,007	32,680	357,570
<u>\$ 701,391</u>	<u>\$ 1,044,545</u>	<u>\$ 3,169,202</u>	<u>\$ 17,923,043</u>
\$ -	\$ -	\$ -	\$ 208
55,292	47,323	162,162	344,975
386	35	1,686	4,538
-	-	-	397
6,315	8,095	28,274	1,031,913
1,582	1,699	3,072	101,482
10,786	6,736	47,249	75,146
-	661	10,967	130,912
<u>74,361</u>	<u>64,549</u>	<u>253,410</u>	<u>1,689,570</u>
-	-	5,082	5,082
171,617	272,080	746,952	8,476,545
15,859	22,186	39,532	1,500,113
<u>\$ 261,837</u>	<u>\$ 358,814</u>	<u>\$ 1,044,975</u>	<u>\$ 11,671,310</u>
\$ 195,824	\$ 370,488	\$ 1,252,525	\$ 1,962,702
57,952	11,446	159,235	228,633
3,978	6,610	28,517	323,445
-	42,031	19,968	1,933,227
-	-	66,654	66,654
-	57,251	193,624	250,875
181,800	197,905	403,702	1,486,196
<u>\$ 439,554</u>	<u>\$ 685,730</u>	<u>\$ 2,124,226</u>	<u>\$ 6,251,732</u>

STATEMENT OF ACTIVITIES

COMPONENT UNITS

FISCAL YEAR ENDED SEPTEMBER 30, 2007

(In Thousands)

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			
		CHARGES FOR SERVICES	OPERATING GRANTS/ CONTRIBUTIONS	CAPITAL GRANTS/ CONTRIBUTIONS	NET (EXPENSE) REVENUE
Authorities:					
Michigan Education Trust	\$ 48,448	\$ 134	\$ 82,863	\$ -	\$ 34,549
Michigan State Housing Development Authority	575,543	173,163	414,460	-	12,080
Michigan Municipal Bond Authority	276,417	133,284	140,488	-	(2,644)
Non-Major	523,156	176,916	227,660	-	(118,579)
State Universities:					
Central Michigan University	334,876	236,179	28,951	6,987	(62,760)
Western Michigan University	470,055	270,391	77,401	9,044	(113,219)
Non-Major	1,457,810	881,114	211,967	12,576	(352,152)
Total	<u>\$ 3,686,306</u>	<u>\$ 1,871,182</u>	<u>\$ 1,183,791</u>	<u>\$ 28,607</u>	<u>\$ (602,726)</u>

The accompanying notes are an integral part of the financial statements.

GENERAL REVENUES						
INTEREST AND INVESTMENT EARNINGS (LOSS)	PAYMENTS FROM STATE OF MICHIGAN	OTHER	SPECIAL ITEMS	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR RESTATED	NET ASSETS END OF YEAR
\$ -	\$ -	\$ -	\$ -	\$ 34,549	\$ (23,578)	\$ 10,970
20,218	-	-	-	32,299	620,006	652,304
-	-	-	-	(2,644)	1,861,851	1,859,207
35,826	125,513	11,606	(95,000)	(40,634)	520,374	479,740
28,395	72,671	344	-	38,650	400,904	439,554
13,312	100,403	27,451	-	27,947	657,783	685,730
53,010	364,653	18,021	-	83,532	2,040,694	2,124,226
<u>\$ 150,761</u>	<u>\$ 663,240</u>	<u>\$ 57,422</u>	<u>\$ (95,000)</u>	<u>\$ 173,698</u>	<u>\$ 6,078,034</u>	<u>\$ 6,251,732</u>